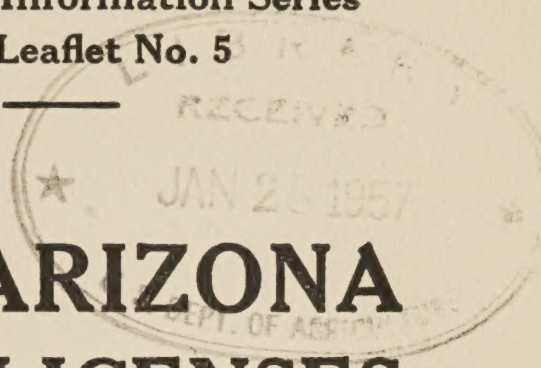


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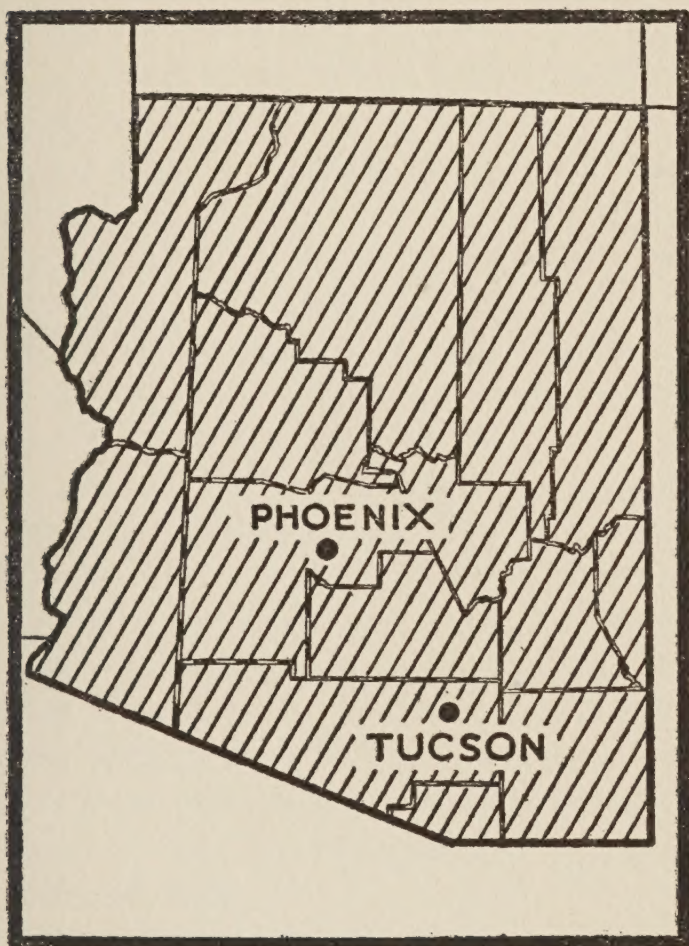
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Commodity Information Series
Milk Leaflet No. 5



THE ARIZONA MILK LICENSES

HOW THEY OPERATE



LICENSES No. 91 and 99

Agricultural Adjustment Administration

MAY 1935

THE ARIZONA MILK LICENSES

DAIRY interests at Phoenix and Tucson, Ariz., have requested and received Federal milk licenses under the Agricultural Adjustment Act.¹ The licenses consist of a series of regulations, established by the Secretary of Agriculture, to govern the marketing of milk.

Designed to stabilize market conditions, the licenses set minimum prices to be paid to producers by distributors, give each producer an equal share of the market, and insure that all distributors will pay the same price for milk according to the use they make of it.

Phoenix, with an estimated average volume of about 7,000 gallons daily, and Tucson, with an estimated average volume of about 3,000 gallons daily, are the largest fluid milk markets in Arizona.

The Arizona Milk Producers Association at Phoenix and the Santa Cruz Valley Milk Producers Association at Tucson, together with producer-distributors and individual pasteurizing companies, were consulted before the licenses were drafted by the Agricultural Adjustment Administration. The licenses were discussed at public hearings at Phoenix on July 3, 1934, and at Tucson on December 3, 1934.

Milk producers are not licensed. Only distributing agencies buying and selling or handling milk in the sales area defined in the licenses are subject to the licenses directly.

Both licenses are administered by one Market Administrator, appointed by the

¹ License No. 91 for Phoenix sales area, effective Nov. 10, 1934. License No. 99, for Tucson sales area, effective Apr. 16, 1935.

Secretary of Agriculture. His office is in room 317, Heard Building, Phoenix.

The Sales Areas Defined

The sales area of Phoenix is defined as follows:

The territory within the corporate limits of Phoenix and the territory within the following boundary lines: Beginning at the southeast corner of section 31, range 4 east, township 1 north, on the base line between township 1 north and township 1 south, extending west along this base line to the southwest corner of section 33, range 2 east, township 1 north, thence north to the northwest corner of section 28, range 2 east, township 3 north, thence east to the northeast corner of section 27, range 3 east, township 3 north, thence south to the northeast corner of section 10, range 3 east, township 2 north, thence east to the northeast corner of section 9, range 4 east, township 2 north, thence south to the southeast corner of section 28, range 4 east, township 2 north, thence west to the southeast corner of section 30, range 4 east, township 2 north, thence south to the point of beginning.

The sales area of Tucson is defined as follows:

Tucson and its corporate limits and the territory within the precincts of Fort Lowell, Condron Pastime, and San Xavier, all within the limits of Pima County.

No production zone is defined. The area from which milk may be obtained is subject only to local health regulations and certain restrictions on new producers.

What the Licenses Do Not Attempt

The licenses do not set up resale prices to be charged consumers for milk.

They do not require producers, against their will, to sell milk to anyone, or deny

them a fair market, or prevent them from selling milk at a premium above license prices.

They do not oblige distributors to buy milk from certain producers or groups of producers.

They do not supplant producers' cooperative associations.

They have nothing to do with labor conditions, rates of pay for labor, the regulation of farm and milk-plant management, or distributing margins.

They do not prescribe any health regulations or ordinances.

What the Licenses Seek to Accomplish

The licenses are designed to secure several important objectives:

- 1. To maintain the income of milk producers at as high a point as may be justified by current supply and demand conditions on the market**

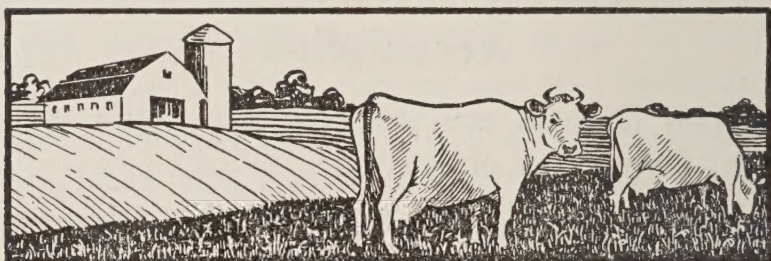
The licenses establish minimum prices payable to producers by distributors who buy their milk. Following the custom on both markets, these prices are established on the butterfat basis rather than on the basis of 100 pounds of milk with differentials allowed for variations in the butterfat test, used in many other markets.

The licenses provide that milk purchased or handled by distributors from original producers must be accounted for strictly on a classified schedule, according to the uses to which it is put. In both licenses class I milk means all milk sold by distributors as whole milk for direct consumption, either bottled or bulk, wholesale or retail. The definition for class II milk in the Phoenix license is milk used for fluid cream purposes, while in the Tucson license it is defined as milk used to produce fluid cream, flavored milk, creamed cottage cheese, and creamed

buttermilk. In both licenses the definition of class III milk is all milk used in excess of classes I and II.

2. To give each producer an equitable share of the market through a straight pool price arrangement supervised by the Market Administrator

By means of a pool of all the available money which distributors owe producers for their milk, at the classified prices for which milk is sold, and a pool of the total volume of milk supplied by all producers, the Mar-



ket Administrator is able to give each producer an equitable share of the total sales value of the milk. This is based on the relation of each producer's deliveries to the total volume and total value of the milk.

3. To insure that producers receive full value for milk according to the classes in which it is sold or used

All distributors are required to report the total volume and value of their purchases and their sales by classes. At the end of each month, the Market Administrator takes the information thus secured and computes a single pool price. This is how he computes that price:

From the distributors' reports he first calculates on the basis of use, at the prices stated in the license, the total value of milk delivered by all producers and used in all classes.

The amount of money which new producers and producer-distributors are to re-

ceive at the class III price named in the license is then set aside, but in practice the amounts for any one month are so small as to have little effect on the final result.

The next step is to get the single blended pool price per pound of butterfat payable to all producers, except new producers and producer-distributors, for the milk they delivered. To do this, the Market Administrator divides the total amount available which distributors are obligated to pay according to the use they make of the milk, by the number of pounds of butterfat in the milk delivered to all distributors.

An example helps to explain how this works.

Suppose 60,000 pounds of butterfat have been delivered by producers to distributors in one period. Suppose the values under the license were 60 cents per pound of butterfat used in class I milk, 45 cents per pound of butterfat in class II milk, and 30 cents per pound of butterfat as established by the license on the basis of the value of 1 pound at wholesale of 92 score Los Angeles butter, for class III milk. Suppose the milk is sold by distributors as follows:

Class I milk for fluid purposes, containing 30,000 pounds of butterfat, value under the license 60 cents per pound, or \$18,000.

Class II milk for cream purposes or the other purposes defined, 15,000 pounds of butterfat, value under the license 45 cents per pound, or \$6,750.

Class III milk, or that used in excess of the other classes, 15,000 pounds of butterfat, value under the license 30 cents per pound, or \$4,500.

Adding the above amounts, distributors are obligated to pay \$29,250 for all milk delivered by all producers.

To determine the average pool price payable to producers, the Market Administrator finally divides the \$29,250 by the 60,000 pounds of butterfat delivered, which gives 48.7 cents—the price to be paid producers for each pound of butterfat in their milk. It is known as the “single blended pool price.”

Under the operation of such a pool plan the price average which producers will get in the long run is measured to a great extent by the rate of production delivered to distributors and its relation in turn to the rate of consumer-demand. Under high volume of production and slow demand the average return to farmers will be reduced.

In connection with settlement of the pool accounts it should be noted that the total amount of money paid producers by one distributor may be less than the total amount of money he should pay for his milk according to the classes in which he used it. In such a case the distributor pays the difference into an adjustment fund operated by the Market Administrator. In case the total amount paid producers by another distributor is greater than the actual amount he should pay for his milk according to its use, he would draw the difference out of the adjustment fund.

This plan of equalization makes it possible to pay all producers the same price regardless of the classes in which their milk is sold. At the same time it maintains equal competitive conditions on the cost of milk as between distributors.

4. To guard against failure or undue delay in payment for milk

Distributors are required to establish financial responsibility through bonds or periodic advance deposits.

5. To check the accuracy of reports, tests, and weights made by distributors on milk delivered by producers

Where cooperative associations have not already provided this service for their members, the Market Administrator checks distributors' tests and weights of milk. Under authority of the Secretary of Agriculture, he has access to the books and records of distributors for this purpose, as well as to verify the receipts and sales of milk or to

compile general market information—all being confidential in respect to individual companies or individuals.

6. To help maintain equitable relations between producers on the Arizona markets under licenses and producers elsewhere

New producers who wish to come into the market are obliged to take the class III milk price for all their deliveries for 90 days.



Distributors outside the markets are not allowed to dump cream on the Phoenix or Tucson markets at cut rates.

7. To provide, through a milk industry board, a means whereby a broad local point of view may be ascertained, as assistance to the Market Administrator and the Agricultural Adjustment Administration

Appointment of a milk industry board, representing producers, distributors, and the public, as provided in the Phoenix and Tucson licenses, is optional with the Secretary of Agriculture.

Distributors Who Are Also Producers

Records show that in these markets producer-distributors handle a large volume of the milk sold to consumers. Obviously, for milk they produce themselves, they cannot operate under the method of payment and accounting that is required for milk purchased from wholesale shippers. Milk produced by distributors, therefore, is exempt from most of the requirements of the

licenses. Producer-distributors, however, make reports of their sales and uses to the Market Administrator. Milk which they buy from other producers or which they sell in bulk to other distributors is subject to the requirements of the licenses.

Operating Costs

To pay the expense of the supervisory services of the Market Administrator, the producers' groups agreed to maximum deductions which do not exceed 3 cents per 100 pounds of milk at Tucson and 2 cents at Phoenix, and this provision is in the licenses. Producer-distributors also pay to this fund at the same rate as other producers.

Producers who do not get from their association such market services as check-testing, verifying of weights, market information, and guarantee against defaults in payments due them, receive such protection under the licenses in return for uniform deductions of not more than 3 cents per hundredweight of milk. This fund is kept separate by the Market Administrator for such purposes only, and if it reaches a total more than sufficient for these services, he may waive its collection in any period or he may prorate the balance among those who furnished the fund.

Copies of the licenses and answers to questions about them will be available at the office of the Market Administrator. It is his duty to explain the licenses and supervise them, but he has no authority to make any changes in their provisions.



